

Service Date: December 15, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER of the Application Of )  
THE MOUNTAIN STATES TELEPHONE )  
AND TELEGRAPH COMPANY (Mountain )  
Bell) For Authority To Implement A )  
Local Measured Service In The Billings )  
Main Central Office. )

UTILITY DIVISION

DOCKET NO. 83.2.9

FINAL ORDER NO. 5035

FINAL ORDER

## TABLE OF CONTENTS

|                                |   |
|--------------------------------|---|
| APPEARANCES                    | 1 |
| INTRODUCTION                   | 2 |
| FINDINGS OF FACT               | 2 |
| Description of LMS             | 2 |
| Arguments in Support of LMS    | 3 |
| Arguments in Opposition to LMS |   |
| Commission Decision            | 7 |
| CONCLUSIONS OF LAW             | 9 |
| ORDER                          | 9 |

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Local Measured Service In The Billings       ) FINAL ORDER NO. 5035  
Main Central Office.       )

FINAL ORDER

APPEARANCES

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FOR THE COMMISSION:

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BEFORE:

THOMAS J. SCHNEIDER, Chairman  
JOHN B. DRISCOLL, Commissioner  
HOWARD L. ELLIS, Commissioner  
CLYDE JARVIS, Commissioner  
DANNY OBERG, Commissioner

## INTRODUCTI ON

On January 27, 1983 Mountain States Telephone and Telegraph Company (Mountain Bell or MBT) filed with the Montana Public Service Commission (Commission or MPSC) a proposal to implement Local Measured Service (LMS) in the Billings Main Central Office. in addition to the initial filing (Exh. MBT-3), the Procedural Order provides discovery, initial and reply comments, and a live hearing.

The Montana Consumer Counsel (MCC) and the Montana Senior Citizens Association were granted intervenor status and a hearing was held on August 30, 1983 in Billings. Briefs were filed by MBT and MCC and a Reply Brief was filed by MBT.

Having considered the evidence in Docket No. 83.2.9, the Commission enters the following Findings of Fact, Conclusions of Law, and Order:

## FINDINGS OF FACT

1. Description of LMS. With the exception of message-measured business lines and PBX trunks, network access and intraexchange usage are bundled in a flat dollar-per-month rate element. One reason for offering bundled flat rates is the separations process which is geographical in nature rather than functional. A second reason is switching technology which rendered uneconomical the measurement of intraexchange usage.

2. With the bundled fiat rate subscribers pay an averaged monthly amount regardless of the

level of their intraexchange usage. For residential subscribers in the Billings Main Central Office the average intraexchange usage level is 111 messages per month. Actual usage varies from zero to over 1,000 messages with 10.4 percent of residential subscribers initiating zero messages per month (Discovery Document No. 52).

3. The average cost of residential usage is 2.7¢/message (TR. p. 130). The average monthly cost is \$3.00, but individual monthly usage costs vary from \$0 to \$27.51. With bundled flat rates all residential subscribers pay the average amount.

4. LMS is a rate structure which unbundles the residual access and cost-based usage elements into separate rates,. It is proposed as an optional rate made possible by the electronic switching system (ESS) in the Billings Main Office.

5. The usage rate element is structured to reflect the prospective direct costs of intraexchange usage which vary in four dimensions: 1) frequency, 2) duration, 3) distance between, central offices, and 4) time-of-day. The proposed rates include the cost of ESS processing capacity that is necessary for purposes of measuring the four dimensional usage (.4¢/message, TR. pp. 131, 152-154, 166). Other costs associated with LMS include service ordering (approximately \$25 per order) which, as a result of a customer attitude survey, MBT proposes to waive for an initial period of 90 days (TR. pp. 91, 110). MBT also estimates initial implementation costs of \$40,000 (TR. pp. 124-125).

6. Arguments in Support of LMS. In its initial position paper (Exh. MB-1) MBT sets forth both efficiency and equity arguments in support of LMS. The efficiency argument is based on the concept of a voluntary exchange. If optional LMS entails an offering of intraexchange usage at a rate which includes the cost of the offering, and individual consumers choose LMS, then necessarily the consumers value (benefits) the service more than it costs. If individual consumers, for whatever reason, do not choose LMS, then the cost of the service is greater than its value (benefit). The benefits of LMS are customer specific and the

decision to purchase LMS will depend on individual customer s examination of the relative costs and benefits (MB-i, pp. 3-8).

7. A second area where optional LMS could cause increased efficiency is in modified usage patterns. To the extent LMS subscribers choose to utilize off-peak periods or reduced duration and frequency, where previously they utilized peak calls with unlimited duration and frequency, the telephone system will avoid usage costs in the long-run. (MB-1, p. 7)

8. The voluntary exchange also results in increased equity. Without optional LMS, subscribers are forced to pay for an average usage level whether they are a low-use customer or a high-use customer. Optional LMS will allow customers who value an unlimited usage option to purchase that option. Those customers with low use will have the opportunity to pay only the cost their usage imposes on the system (MB-i, pp. 10-11).

9. A second equity consideration proffered by MBT relates to the price of access. Optional LMS will provide a lower cost to subscribers to gain network access. Whereas the flat rate forces low income subscribers to purchase access with unlimited usage, optional LMS could allow some low income subscribers to remain connected to the network where they otherwise could not afford to. (MB-1, pp. 9-10)

10. The Commission finds merit in the arguments presented in support of LMS. If customers are willing to pay the cost of LMS, then optional LMS will increase the net value of the telephone network. The concept of unbundling the bundled structure also serves to further delineate the price signals which will determine how efficient the telephone system operates. Forcing subscribers to pay averaged rates which are necessarily inflated by the “free” usage price signal is inefficient and inequitable.

11. The Commission also finds merit in the equity argument. The SLU study and the customer attitude survey indicate that LMS is preferred by low income and elderly subscribers and

by small businesses (TR. pp. 49-57). Furthermore, the one single group of residential subscribers who will benefit the most is the elderly. Optional LMS, by simply allowing customers to pay only for their own usage instead of an inflated average, will make available to low income and elderly subscribers a lower cost access/usage option\*. If all elderly households subscribed to LMS, even without modifying their usage patterns, the average effect on their monthly bill would be a reduction of \$1 .20/month.

12. Arguments in Opposition to LMS. The MCC raises two arguments in opposition to LMS. One argument relates to the undesirable motives originating in an LMS policy dictated to MBT by AT&T (MCC-1, pp. 3-12, 19-33). The other argument maintains that LMS is inefficient (MCC-1, pp. 12-17).

13. The motive-related argument hinges on the concept that LMS is an AT&T ploy to achieve ESS switching capability, reap excessive revenues from local exchange customers, and migrate customers off of flat rate service.

14. The efficiency-related argument maintains that MBT has failed to demonstrate that the benefits of LMS exceed the costs. LMS represents a substantial increase in the cost of 'local exchange' service and MBT has

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\* The LMS rates, as proposed, would allow approximately 70% of the IFR subscribers to lower their combined access/usage monthly bill.

failed to quantify off-setting benefits. The MCC also maintains that LMS, by underpricing access, will lead to excess consumption of access and that the proposed usage rates represent overcharges. Because the system costs are mostly fixed and nontraffic sensitive, usage pricing will not avoid costs and only lead to inefficiency.

15. At least one public witness testified that LMS is too complex for the elderly (TR. Vol. 2, p. 26).

16. The Commission rejects the arguments proffered in opposition to LMS. The motive-related argument does not appear to be relevant in that the revenues generated by “local exchange” the availability of LMS in other central offices, and the alleged migratory objectives all require the direct approval of the MPSC in a regulated forum. That is, it is the regulatory actions of the MPSC, not an AT&T corporate strategy, that will determine the fate of local exchange costs, revenues, and rates. If optional LMS is denied, the Billings Main ESS is not going to disappear. If the proliferation of ESS technology is a concern, then the criterion resulting in that technology should be examined, not LMS rate structure.

17. The efficiency argument proffered by the MCC appears to consist of a disturbing number of inconsistencies. It is not clear how LMS will cause excess revenues (Brief, p. 2) and stimulated usage (MCC-2, p. 11), while at the same time cause repression (Brief, p. 2). Or how “drastic overcharges for exchange usage” (MCC-1, p 17) can reflect an underestimate of the costs of LMS (MCC 1, pp. 20-24). The Commission is also troubled by the apparent suggestion that rates should now reflect short-run costs (TR. pp. 208-210) which are usually condemned by the MCC as predatory and how the system costs are now mostly fixed, nontraffic sensitive, and best reflected in flat monthly charges (e.g. MCC-1, p. 18).

18. The Commission would agree that LMS is a costly addition to the revenue requirement. However, if customers desire or are willing to pay that cost, then the customer specific benefits must be of greater magnitude, thus resulting in net benefits\*.

19. For two reasons the Commission also rejects the complexity argument. One reason is the fact that LMS is optional, thus allowing those consumers who, for whatever reason, experience disutility with usage sensitive service to choose a flat pricing package. The second reason relates to the alleged complexity of measured service. The Commission would point out that LMS is no more complex than any other consumption decision made on a routine basis by all consumers. For example, the cost of driving a car depends on such factors as frequency, duration, distance, speed, type of gasoline, type of car, etc. Yet, this is obviously no justification to deny customers the opportunity to pay only for the costs they cause by forcing all customers to pay some flat average monthly charge for driving cars.

20. Commission Decision. The Commission finds merit in the arguments proffered in support of optional LMS. Where normal office growth and economic analyses have resulted in switching offices with measurement capability, the subscribers should be allowed to determine for themselves whether cost-based LMS is beneficial. The record does not establish suf-

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\* A similar situation exists with Montana-Dakota Utilities Co. Although electric time-of-day meters are relatively expensive, the Commission found that the cost of the meter is no reason to deny customers the opportunity to purchase a meter and pay the true cost of service.

ficient reason why the telephone subscribers should be denied the opportunity to pay only for their own usage.

21. Optional cost-based LMS will allow an increase in efficiency and will promote equity. It will allow subscribers who otherwise could not afford to do so, the opportunity to purchase access on an unbundled basis and thus remain connected to the network.

22. For those subscribers who, for whatever reason, find disutility with the LMS structure, the Commission intends to maintain a flat rate option.

23. The Commission also intends to continually monitor the transition to ESS Central Office switching technology. The monitoring shall include an examination of economic criterion and supporting analysis.

24. In one area the Commission finds that the LMS proposal requires a change. As proposed, a subscriber who chooses LMS bases that decision on their perceived usage levels with an initial 90-day waiver of service order charges. The Commission finds that a better approach would have the subscribers basing the decision on their actual usage levels. This requires that MBT, upon request of a subscriber, provide detailed billing to existing flat rate subscribers who are contemplating a move to measured usage. Detailed billing charges would be waived for an initial 60-day period. This would allow customers to witness actual usage levels and still provide an additional 30-day period to make a subsequent service choice and avoid the service ordering fee.

25. The Commission finds that optional LMS should be implemented in the Billings Main Central Office. The rate levels implemented shall be those initially filed with the Commission (MB-3) except that the access rate elements

will be subject to any increases found appropriate for other access elements in other dockets.

#### CONCLUSIONS OF LAW

1. Mountain Bell is a telephone utility rendering public service in Montana under the jurisdiction of the PSC.
2. The PSC has afforded full opportunity for public participation in this proceeding.
3. The rates approved herein are just and reasonable.

#### ORDER

Mountain Bell's proposed tariffs implementing optional LMS in the Billings Main Central Office are approved.

DATED this 5 day of December, 1983 by a vote of 4 .1

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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THOMAS J. SCHNEIDER, Chairman

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JOHN B. DRISCOLL, Commissioner

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HOWARD L. ELLIS, Commissioner

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DANNY OBERG, Commissioner

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CLYDE JARVIS, Commissioner  
voting to Dissent

ATTEST:

Iris Basta  
Acting Secretary  
(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

DISSENT BY CLYDE JARVIS

Docket No. 83.2.9

Order No. 5035

I am forced by what I have read and heard in this case to dissent from this order, this being my second dissent in nearly five years in office.

However, in this case I have read and heard so many “weasel words” from Mountain Bell I cannot vote for the implementation of local measured service. Mountain Bell’s request to implement such a service in only the Billings’ main exchange to me is nothing more than the first step toward mandatory measured service.

A question put to Mr. Reinking, a Mountain Bell witness, during cross-examination asked, “What priority does Mountain Bell place on measured service?”. Mr. Reinking responded, “Of all the corporate objectives I DON’T KNOW WHERE EXACTLY IT WOULD STAND. I DO NOT KNOW THAT IT IS NOT A HIGH PRIORITY.” In other words, Mr. Reinking does not really know what Mountain Bell’s objectives are; mandatory measured service might well be one of Mountain Bell’s prime objectives. Mr. Reinking did not emphatically deny it is not one of Mountain Bell’s high priorities.

Mr. Reinking is basing consumer acceptance of local measured service on a survey performed by Mountain Bell of customers in the Billings’ main exchange. Let us consider that there are 26,514 residential customers in that exchange, yet Mountain Bell surveyed only 776 of those customers, a mere 2.926 percent, a rather poor survey!

It is a foregone conclusion the implementation of measured service in Billings will have the Company back in requesting an increase in rates. Mr. Reinking stated, “Mountain Bell is not requesting an increase AT THIS TIME.” When questioned as to if he knew how long “this time” would remain in effect, Mr. Reinking responded, “No I don’t. It depends on local circumstances. I would suspect that after we’ve had some experience, I don’t know whether that’s a year or so, in future rate cases we would ask for remuneration of the cross-elastic effect because the customers

who would be on measured service would not be realizing the revenues they had been on flat....”  
So it is evident increased rates will result from measured service.

Mr. Reinking stated in cross-examination that Mountain Bell does not have a Measured Service Implementation Plan, in fact, it was stated that it is not ITS CURRENT POLICY to have such a plan. But what about next year or the next? Mr. Reinking was questioned further as to whether US West has such a plan. His answer was, “NOT TO MY KNOWLEDGE.” Mr. Reinking admitted he is on the outer limits as to knowledge of what the board of directors is thinking or planning. He did not emphatically deny that such a plan does exist.

Flat rate customers do not need electronic switching to complete local calls, but the record shows that Mountain Bell is projecting 18 additional exchanges will have four element measured service capability through electronic switching by November, 1986 with ratepayers being expected to pick up the costs of millions of dollars.

If this application were denied I seriously doubt that Mountain Bell would rush into the expenditure of millions of dollars for electronic switching in exchanges where they are not needed.

It is my personal opinion the granting of this application does in fact make the Montana Public Service Commission a party to the unnecessary expenditure of millions of dollars for those electronic switches. In essence, the granting of this application gives Mountain Bell tacit approval to forge ahead.

In good conscience I cannot vote for approval of this application as I view it as nothing more than a foot in the door toward mandatory measured service .